

HOUSE BILL REPORT

2SSB 5782

As Reported by House Committee On:
Financial Institutions & Insurance
Finance

Title: An act relating to the linked deposit program.

Brief Description: Modifying provisions of the linked deposit program.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Shin, Prentice, Franklin, Kline, Kohl-Welles and Berkey; by request of Governor Gregoire).

Brief History:

Committee Activity:

Financial Institutions & Insurance: 3/31/05 [DPA];

Finance: 4/4/05 [DPA(FII)].

**Brief Summary of Second Substitute Bill
(As Amended by House Committee)**

- Increases the amount of funds available for the Linked Deposit Program from \$50 million to \$100 million.
- Limits individual loans to less than \$1 million.
- Requires the State Treasurer to reduce the amount of the preference to ensure that the effective interest rate on the certificate of deposit is not less than 2 percent.
- Allows a qualified public depository to reduce the interest rate on the loans by an amount that corresponds to the reduction in the preference that the qualified public depository receives from the State Treasurer.
- Moves monitoring functions from the Department of Community, Trade and Economic Development to the Office of Minority and Women's Business Enterprises.
- Repeals sunset provisions.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass as amended. Signed by 11 members: Representatives Kirby, Chair; Ericks, Vice Chair; Roach, Ranking Minority Member; Tom, Assistant Ranking Minority Member; Newhouse, O'Brien, Santos, Serben, Simpson, Strow and Williams.

Staff: Jon Hedegard (786-7127).

Background:

The Linked Deposit Program was created in 1993. The stated purpose of the program is to increase access to business capital for the state's certified minority-owned and women-owned businesses. Under the program, certified businesses can obtain reduced interest rate loans from participating financial institutions.

The State Treasurer is authorized to use up to \$50 million of short-term state treasury surplus funds. These funds are deposited with public depositories as certificate of deposits on the condition that the public depository make "qualifying loans" under the program. These funds are used to purchase certificates of deposit (CDs) equaling the total amount of money loaned to certified business. The state forgoes up to 2 percent in interest on the CDs and passes along the savings to the public depository with the condition that the depository reduces the interest rate for the loan recipients.

Qualifying loans are loans:

- made to certain minority or women's business enterprises;
- for a period not to exceed 10 years;
- at an interest rate that is at least two percentage points below the market rate that normally would be charged for a loan of that type; and
- with points or origination fees are limited to 1 percent of the loan principal.

To be eligible the applicant must:

- be a minority and/or a women;
- have at least 51 percent of ownership of the business; and
- control the business.

Three state agencies are involved in the program. The State Treasurer established the program. The Department of Community, Trade and Economic Development (DCTED) monitors the program. The office of Minority and Women's Business Enterprises (OMWBE) certifies the eligibility of the businesses.

The program is scheduled to sunset on June 30, 2008.

Summary of Amended Bill:

The amount of funds that the State Treasurer may use in the program is increased from \$50 million to \$100 million.

The definition of "qualifying loan" is amended to limit the amount of any individual loan to a maximum of \$1 million.

The State Treasurer shall reduce the amount of the preference to ensure that the effective interest rate on the certificate of deposit is not less than 2 percent. If the preference given to a qualified public depository is less than 200 basis points, the qualified public depository may reduce the interest rate on the loans by an amount that corresponds to the reduction in the preference below 200 basis points.

The duty of monitoring the program is moved from the DCTED to the OMWBE.

The sunset provisions for the program are repealed.

Amended Bill Compared to Second Substitute Bill:

The amount of funds that the State Treasurer may use in the program is increased from \$50 million to \$100 million.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: This is very similar to language which was before the House earlier this session. Restoration of the \$50 million which was in the House version is favored. The linked deposit program is a critical piece of the Governor's economic development agenda. Under the current program, over 4,000 people are employed and this translates into 4,695 jobs downstream. Unfortunately, there is a waiting list of about 11 months and \$7 million. Access to capital is a hurdle for new and small businesses which this program helps overcome. The interest discount helps businesses be more competitive. Overall, the linked deposit program helps the general economy as well as individual business owners. The original linked deposit program especially helped rural businesses. Inner city businesses have not benefitted as much, particularly after the passage of Initiative 200. The additional \$50 million is necessary to ensure that inner city businesses also benefit. There are factories relocating to Oregon because that state offers incentives to small businesses. Washington needs to keep businesses here. This will help create jobs and benefit the economy of the state. It is a win-win for banking, minority and women owned businesses, and the state. Moneys available to small businesses through this program allow more staff to be hired, allow employers to provide health insurance, and provide capital for purchase and improvements to business buildings. Having to be put on a waiting list to participate in this program keeps more businesses from benefitting and growing at a faster rate. The Senate budget assumes a loss to the state but in reality this will be a win for the state and yearly Business & Occupations taxes will increase as the businesses helped thrive and grow. If you give someone a fish, they can eat for only a day. If you show them how to fish, they can eat for a lifetime. This program is like teaching someone to fish. The program has operated effectively for over 12 years. The monetary limit

needs to be raised. Everyone benefits: businesses, employees, the state, the banking industry, and clients,(some of whom are on Medicaid).

Testimony Against: None.

Persons Testifying: Peter Antolin, Office of Financial Management; Carolyn Crowsen, Office of Minority and Women's Business Enterprises; Doug Extine, Office of the State Treasurer; Irene Reyes, Excel Gloves and Safety Supplies; Eddie Rye, jr., Pacific Northwest Chapter of National Black Chamber of Commerce; Alexander Borromeo, Glenn Gregory and Lincoln Ferris, Coalition for Investing in Washington; Trie Smith and Christine Simonson, Countryside Montessori Schools; Peggy Power, Columbia Veterinary Hospital; Denny Eliason, Washington Bankers Association; and Lynn French, African American Community Health Networks and Cannon House.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended by Committee on Financial Institutions & Insurance. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Conway, Ericksen, Hasegawa and Santos.

Staff: Mark Matteson (786-7145).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Financial Institutions & Insurance:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: This program is a vital source of capital for many women- and minority-owned businesses. This is a fund that has proven very successful over the last 10 years. There is a substantial waiting list for loans under this program, in part because there is not currently a cap on the loan amount that may be applied for. This helps businesses in their early years of existence. We appreciate the efforts to move this through and would very much like to see the level of the program at \$100 million.

The Office of Minority and Women's Business Enterprises (OMWBE) supports this effort. The financial benefits to the firms and the economy of the state greatly outweigh the fiscal cost to the state under the amendment adopted in the Financial Institutions and Insurance Committee. Some of the uses to which the funds are put or may potentially be put include:

health insurance; increasing Web site competitiveness; and school construction costs. This is a win for the targeted firms, a win for the banking industry, a win for the state.

The program has been very popular. The Treasurer's Office has had no problems administering the program and has worked well with the OMWBE and the banking industry.

Testimony Against: None.

Persons Testifying: Senator Shin, prime sponsor; Doug Extine and Carolyn Crowson, Office of Women Minority and Women's Business Enterprises; Mark Baldwin, Governor's Office; and Lincoln Ferris, Coalition for Investing in Washington Jobs.

Persons Signed In To Testify But Not Testifying: None.